

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
May 11, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 8:30 a.m. on May 11, 2012 in the office of The Honorable David H. Lillard, Jr., State Treasurer. The Honorable David H. Lillard, Jr., State Treasurer; and Mr. Greg Elliott were present in person. The Honorable Tre Hargett, Secretary of State, and Mr. David Seivers participated in the meeting by telephone. The Honorable Mark Emkes, Commissioner of Finance and Administration was unable to attend the meeting. Also in attendance were Mr. Bill Abney, Assistant Treasurer, Justin Wilson, State Comptroller, Mr. Rick Newton, Mr. Michael Brakebill, Chief Investment Officer, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, and Mr. Matthew Haitas, Real Estate Analyst. Mrs. Sheila Ryan of Cambridge Associates, TCRS's Private Equity Consultant, participated by telephone.

The Treasurer began the meeting by reading the Resolution for a Conference Call Meeting. He noted that the purpose of this meeting is to consider action on several real estate transactions and several private equity transactions. The law allows the Investment Committee to meet by telephone conference call upon a determination by the Committee that the matters to be considered at this meeting require timely action by the body, that physical presence by all members is not possible within the period of time requiring actions and the participation by some members by telephone is, therefore, necessary. If the Committee makes such a determination, any member participating in a meeting by telephone is deemed present in person at the meeting for purposes of quorum requirement and voting.

Due to the importance and need for timely action of the matter to be considered at this meeting, Treasurer Lillard moved that the Committee find that the telephone participation in this meeting by some Committee members is necessary. Mr. Seivers seconded the motion and the motion was unanimously approved by the committee.

Mr. Brakebill was asked to introduce the proposed investment by TCRS in four new private equity funds. He began by presenting the proposed investment in Oaktree Opportunities Fund IX, a \$4 billion distressed debt fund. TCRS has commitments to Oaktree VIII (A&B) and Oaktree PPIP Private Fund. TCRS staff recommended making a \$50 million commitment to this fund. Mr. Brakebill noted that TCRS has been pleased with its partnership with Oaktree and the performance of the investments in its earlier funds. He noted that Oaktree had recently taken itself public, which does create certain additional risks. However, Mr. Brakebill noted that both TCRS and Cambridge Associates, TCRS's private equity consultant, believe this risk is mitigated by the expertise and strength of Oaktree as a general partner. Treasurer Lillard shared similar concerns about the potential conflict of interest between the limited partners of the funds and the shareholders of the publicly traded general partner.

David Seivers made a motion to approve the investment in Oaktree Opportunities Fund IX by TCRS. The motion was seconded by Treasurer Lillard and unanimously approved.

Mr. Brakebill next presented the proposed investment in Khosla Seed B, a \$300 million early stage venture capital fund. TCRS has commitments to Khosla Ventures III and Khosla Ventures IV. TCRS staff recommended making a \$10 million commitment to this fund. Mr. Brakebill stated that TCRS knows the managers of these funds very well and are very comfortable in investing in their new funds. He further noted that while TCRS will target a \$10 million commitment, it is likely that the final commitment will be lower as the demand to invest in this fund is very strong. Secretary Hargett asked if the fund would allocate commitments on a pro-rata basis. Mr. Brakebill stated that TCRS would not be allocated its investment on a pro-rata basis.

Secretary Hargett made a motion to approve the investment in Khosla Seed B by TCRS. The motion was seconded by David Seivers and unanimously approved.

Mr. Brakebill presented the proposed investment in Institutional Venture Partners XIV, a \$1 billion late stage venture capital fund. TCRS staff recommended making a \$25 million commitment to this fund. Mr. Brakebill stated that this fund invests in companies that are still unprofitable but growing rapidly. Many of these companies are internet companies that are currently attracting significant attention from the media. Treasurer Lillard raised concerns about the rising valuations in this sector and asked how TCRS would remain comfortable that its general partner is keeping its discipline. Sheila Ryan of Cambridge Associates agreed that valuations in this space may be getting stretched. She noted that Institutional Venture Partners has demonstrated discipline by avoiding investments in companies valued over \$1 billion, which are the companies that are most at risk of overvaluation. Institutional Venture Partners tends to focus on companies valued in the range of \$300 to \$500 million.

David Seivers made a motion to approve this investment in Institutional Venture Partners XIV by TCRS. The motion was seconded by Secretary Hargett and unanimously approved.

Mr. Brakebill presented the proposed investment in Advent Global Private Equity Fund VII, a \$9 billion diversified global buyout fund. TCRS staff recommended making a \$100 million commitment to this fund. Mr. Brakebill noted that this investment was critical to increasing diversification in the private equity portfolio by adding additional exposure to buyout strategies. Further, this fund would increase the international exposure in the portfolio. He further noted that the commitment was larger than most commitments because the value of the fund is much larger than typical funds. Treasurer Lillard asked if a moderate amount of leverage would be implemented by the fund. Shelia Ryan of Cambridge Associates stated that Advent Partners does use leverage to gain access to cheap financing; however, it focuses on creating value through operational improvements and not through high levels of leverage.

Treasurer Lillard made a motion to approve the investment in Advent Global Private Equity Fund VII by TCRS. The motion was seconded by Secretary Hargett and unanimously approved.

Before moving the meeting to discussions of the proposed real estate transactions, Comptroller Wilson asked about the role of private equity in the overall TCRS portfolio considering several large institutional funds experienced trouble in meeting cash

obligations to private equity during the recent financial crises. Treasurer Lillard noted that the private equity target was recently increased to a maximum allocation of 10% with a target of 8%. However, strategic lending will consist of 5% leaving a 3% allocation to traditional private equity. Mr. Brakebill added that the majority of funds who experienced liquidity crunches were significantly less liquid than TCRS is today. Those funds would have had 15% to 30% allocation to private equity in addition to larger annual required distributions. Sheila Ryan added that Cambridge Associates works closely with TCRS to analyze the effects on commitments from different economic scenarios.

Peter Katseff was asked to introduce the three proposed real estate investments by TCRS. He began by introducing the proposed investment by TCRS in an Apartment Community in Houston, Texas built in 2007. The transaction had been proposed by UBS, a Real Estate Investment Advisor engaged by TCRS. The proposed investment has been reviewed and approved by Mr. Katseff.

Mr. Katseff and Mr. Haitas visited the property and the competition. Mr. Katseff noted that the property is located in an excellent location surrounded by some of the most prestigious neighborhoods in Houston, a city whose economy has performed extremely well since the end of the great recession. It is located near several large employers and within walking distance to strong national retailers. While construction of new apartments is a potential long-term threat to this property, that risk is mitigated by the purchase price being significantly less than the estimated cost to build new apartments in a comparable location.

David Seivers made a motion to approve the investment by TCRS. The motion was seconded by Secretary Hargett and unanimously approved.

Mr. Katseff introduced the proposed investment by TCRS in two Student Housing Communities. The transaction has been proposed by Clarion, a Real Estate Investment Advisor engaged by TCRS. The proposed investment has been reviewed and approved by Mr. Katseff.

Mr. Katseff and Mr. Haitas visited both properties, met with the operator and performed a significant level of due diligence with the operator. Mr. Katseff noted that this was a new type of investment for TCRS. However, he noted that several large institutional investors are investing in this space including the University of California, CalPERS, CalSTRS, and the State of Wisconsin Investment Board (SWIB). Mr. Katseff has a long standing relationship with senior management at Heitman and reached out to the firm to discuss investing in student housing. Heitman, a separate account real estate advisor to institutional investors with over \$21.9 billion in private real estate under management, has been investing in student housing for its institutional clients since 2002 with great success. Further, there are two publicly traded REITS with a market cap in excess of \$1 Billion dedicated solely to the investment in private student housing.

Mr. Katseff stated that one community is under construction and being built with high end finishes including granite countertops and stainless steel appliances. The community will offer several amenities including a fitness room, a resort style pool, a

tanning salon and public study rooms. The location allows students to walk to campus and a popular retail strip.

The other community was built in 2005 and is located one mile from nearest section of the campus and two miles from the main downtown campus. Shuttle buses provide transportation for students to and from campus. As part of this investment, TCRS plans to renovate some of the units to provide an additional return through increased rents and to better position the property to compete with new communities.

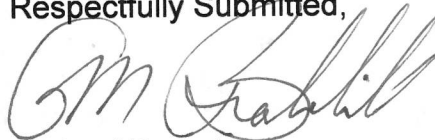
Mr. Katseff noted that TCRS would be utilizing a specialized third-party property manager focused on student housing as the property manager of both these properties. This manager is one of the largest student housing companies in the country. TCRS has developed a relationship with high level executives at the company and is confident that they are highly competent operators of this product. Mr. Katseff noted that despite the confidence TCRS has in this manager, there are other companies that specialize in student housing who could replace this manager should it ever be necessary.

Greg Elliott asked about the planned renovations and the likelihood of achieving the projected returns on those plans. Mr. Katseff stated that the renovation was based on the strategy of providing a similar quality unit at a lower price point to new communities that are leasing at higher rents. He also noted that the renovation plan was still under review and could easily be scaled back if necessary. Further, he noted that TCRS would be relying heavily on the specialized manager's experience to deliver the appropriate level of upgrades to the units.

Treasurer Lillard made a motion to approve this investment by TCRS. The motion was seconded by Greg Elliott and unanimously approved.

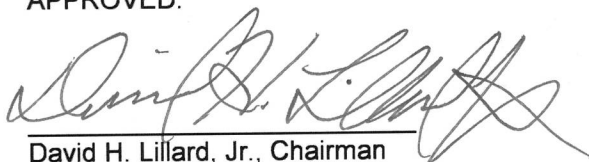
The members of the Investment Committee had no additional questions and the meeting of the Investment Committee was adjourned.

Respectfully Submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:



David H. Lillard, Jr., Chairman
TCRS Board of Trustees